The evolution of lateral hiring and skill formation in the global airline industry, 1940–2010

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Abstract

Although lateral hiring (LH) has increasingly come to characterise today's global labour market, past studies have largely overlooked how the practice unfolds as industry structure evolves. This article draws on the human capital theory to examine the evolution of LH and skills formations in the global airline industry from 1940–2010. This historical narrative identifies and distinguishes four distinct phases (i.e. the golden, human-factor, embryonic stage and 'war for talent') which shed light on the changes in the industry facilitated by deregulation and liberalisation. The phases also elucidate the processes and factors that precipitate the fundamental shift from government-funded to employer-funded and then to largely employee-funded training that has emerged to characterise the industry. The implications and contributions to management history are examined.

Introduction

Since the demise of the old 'Master and Servant' law, which was underpinned by the Statute of Artificers (1563), a servant's (i.e. employee) obligations to 'the master' (i.e. employer) have declined considerably (Hepple 1999; Gardner et al. 2010). The relationship between the two was built on the foundation of hard work in return for food and shelter. The failure of 'the master' to keep his/her obligations altered the foundation and contributed to the demise of the system, leading to increased inter-firm mobility.

Since then, firms have adopted various strategies in an attempt to limit or stop employees' propensity to change jobs. One of the earliest incidences can be traced to the American Civil War (1861–1865), when a watch manufacturer and a local textile manufacturer agreed not to entice away each other's workers (Gitelman 1965, 223; Gardner et al. 2010). Firms have increasingly adopted various means to identify and recruit skilled personnel currently employed by other organisations (Chadwick and Dabu 2009; Gardner 2005).

By the end of the second half of the twentieth century, this practice of lateral hiring (LH) had increasingly come to characterise the global labour market and firms have become receptive to the practice as a means to accumulate human capital to help address their human resources' constraints (Gardner 2002). Although in the last few years we have witnessed a burgeoning stream of research on LH (see Amankwah-Amoah 2013 for review on the subject), a review of the evidence so far suggests that studies have largely failed to examine how the practice has unfolded over time.

The main purpose of this article is to help address this gap in our understanding by examining the evolution of LH and skills formation in the global airline industry from 1940–2010. Our focus on the global airline industry is motivated by the fact that the key source for competitive advantage for firms competing in such industry has shifted from the possession of capital resources to human capital (Gardner 2002). In addition, recent globalisation facilitated by liberalisation and deregulation in the industry has exerted competitive pressures on firms to achieve improved performance, prompting the accelerated trend towards personnel poaching (Gittell et al. 2009). Indeed, the industry 'embodies much of the complexity, volatility, uncertainty and challenge' that characterises today's global economy and labour market (Bell 2009, 20).

This article contributes to management and organisational history literature by integrating human capital theory (HCT) (Becker 1964) and skills development literature (Debrah et al. 2000) to develop a historical phase model of the evolution of LH and skill formation. The analysis provides unique insights into the historical roles of governments, airlines and employees in creating environmental conditions for LH to flourish to become the norm in such industry. In so doing, the study contributes to the management and organisational history literature, which has largely overlooked this issue (Ansari et al. 2010).

The rest of the article proceeds as follows. The next section reviews the literature on LH and the HCT. This is followed by a brief overview of the evolution of the global airline industry. The article then identifies and illustrates four distinct phases in the evolution of LH and skills formation. The final section outlines the implications of the findings.

Lateral hiring: a human capital perspective

Scholars have used terms including ‘poaching’, ‘cherry picking’, ‘lift out’ and ‘talent raiding’ to refer to LH (e.g. Gardner et al. 2010). LH refers to the action by an employer to identify, seek and acquire an individual or group currently employed by another firm (Gardner et al. 2010). The notion of LH is rooted in the HCT and has been utilised by numerous studies to explain the antecedents and consequence of personnel mobility (e.g. Groysberg and Lee 2009). Human capital refers to the knowledge, skills and abilities of individuals (Becker 1964). Researchers have historically viewed human capital as a source of value for both the individual and organisation (Becker 1964; Schultz 1961).

Over the past two decades, human capital has supplanted physical assets as the main source of competitive advantage in many industries leading to intense competition for talent (Gardner 2002). Indeed, some scholars view knowledge embedded within individuals as “ultimately the only source of competitive advantage’ (Crook et al. 2011, 444). Human resources are seen as ‘the crown jewels’, which can be deployed to outwit rivals (Kor and Leblebici 2005; Youndt et al. 2004). Firms that are able to assemble superior human talent and utilise it efficiently are more likely to outperform their competitors (Youndt et al. 2004).

The HCT is rooted in the assumption that ‘firms weigh the costs of current investments against the benefits of future returns when deciding what investments to make in the development of human capital’ (Buchholtz et al. 2003, 506). Becker (1964) distinguished between ‘general’ and ‘specific’ skills to help provide a better understanding of the theory. Specific training equips employees with organisational capabilities which are difficult to acquire on the labour market and in so doing generate non-traditional Ricardian rents by limiting employee mobility (Chadwick and Dabu 2009). Specific skills only increase the productivity of the worker in his/her current job (Loewenstein and Spletzer 1999). Firms investing in workers prefer specific training, thereby enabling them to recoup their investment (Benson et al. 2004; Booth et al. 2003).

On the other hand, general skills equip people with knowledge and expertise that can easily be explicable to other employers thereby enhancing their outward mobility (Acemoglu and Pischke 1999). According to the traditional HCT, in a competitive labour market, firms are unlikely to recoup their investments in general skills, so they should never pay for general training (Dobbs et al. 2008). Poaching is more likely to occur where the employee possesses general skills, which makes it difficult for the employer to recoup its investment in training (Hartley 1982).

The strict interpretation and sharp policy prescriptions of the traditional HCT have, however, been questioned in recent years. The neo-HCT argues that employers should pay for employees to acquire general skills due to the difficulties of distinguishing between training that is only applicable to the existing employer and market imperfections (Dobbs et al. 2008). For firms to exercise their ability to sustain any performance advantage underpinned by human capital, rivals must not be able to acquire the resource or capabilities in the 'strategic factor market' (Adegbesan 2009). Chadwick and Dabu, (2009, 260) put it this way: 'if the human capital resulting from training can be traded on the labour market, it cannot yield either kind of Ricardian rents because its scarcity cannot be maintained.' Recruiting skilled personnel from the 'strategic factor market' provides employers with a 'relatively quick fix' to address their human resource constraints compared with internal development (Kor and Leblebici 2005).

Hiring experienced workers from rivals enables firms to undertake timely expansion into new markets, where the individual or group has already established their expertise (Cappelli 2008). Human capital development strategy should, therefore, mirror an organisation's ability to meet its skills requirements internally or its ability to acquire people from other firms (Kor and Leblebici 2005). Firms are unlikely to invest in developing human capital when the external labour market caters for their needs profitably (Chadwick and Dabu 2009) or when the knowledge is more likely to 'walk out of the door' (Cappelli 2008).

Another school of thought argues that skills development cannot be the sole responsibility of the firm/market, governments also play an important role due to market imperfections (Debrah and Ofori 2001). Governments have historically played an active role in facilitating economic advancement by connecting skills development policies to national industrial strategies (Debrah et al. 2000). They are sometimes driven into the marketplace to cater for the needs of industries or when there is deficiency in the supply of skills due to market failure (Hartley 1982). Government actions may encompass investment in education, training programmes and legislation to facilitate the development of human capital.

Insert Figure 1 about here

In a nutshell, there are three main parties in skill formation: governments, employers and employees, who all play a crucial role in the provision of general and specific training (see Figure 1). There are obligations on each party in the development of talent. Despite these rich streams of research, our understanding of how competition for human capital unfolds whilst industry structure evolves remains severely limited. This article seeks to fill this gap in our understanding by examining the evolution of LH as the airline industry evolves.

Overview of the evolution of the global airline industry

Governments across the globe adopted various measures to improve the competitiveness of airlines within their jurisdictions. The first major step was at the Chicago Convention on International Civil Aviation in 1944, where 52 nations agreed to set the framework governing the global civil aviation industry (Fu et al. 2010; Vietor 1990). The system of bilateral air service arrangements emerged from the convention to govern the industry (Doganis 2006). Since the late 1970s, the deregulation and liberalisation have spread to most parts of the world. A major change occurred when the US Congress passed the Airline Deregulation Act in 1978 to ease restrictions on the US domestic market (Vietor 1990). This provided the platform for eliminating governmental restraints by giving airlines the freedom to set their own fares, encouraging competition to promote lower fares and better services. This paved the way for new-entrant airlines such as People Express, New York Air, Midway and Muse, and former intra-state and charter airlines.

Between 1979 and 1983, 49 new carriers were certified to conduct domestic passenger service (see Evans and Kessides 1993). As quickly as new airlines were established, both old and new carriers began to exit the industry through mergers and acquisitions or failures (Vietor 1990). The Act served as a catalyst for reforms around the globe. The UK Government followed the US example by deregulating its domestic services under the Civil Aviation Act 1980 to encourage competition. Similarly, when the Progressive Conservative Brian Mulroney was elected in September 1984, the government pursued a new transport policy which entailed deregulation of the industry. This eventually culminated in the passing of the National Transportation Act 1987 which came into force in 1988 and the privatisation of Air Canada (Oum et al. 1991). Detailed discussions on how this political philosophy emerged will follow shortly.

In the European Union (EU), the desire for a common market contributed to the passage of the Single European Act in 1986, which led to the introduction of three packages from 1987 to 1997. Prior to 1986, the EU members had their own policy with regard to aviation and exercised absolute control of their airspace (Doganis 2006). The European Commission adopted a gradualist approach to liberalisation partly due to the need to obtain agreement from each one of the member states at every stage of the liberalisation (Belobaba et al. 2009). Liberalisation had a significant impact on employment in the sector. Figure 2 demonstrates the shift that occurred in terms of the number of people employed in Western European countries. It shows that whilst liberalisation led to increased employment in countries such as the UK and France between 1992 and 2001, other countries including Switzerland and Greece experienced a sharp decline in the number of people employed in the sector.

Insert Figure 2 about here

In Asia, the shift of economic powers from the West to the East has been exemplified in the industry. Since the 1970s, airline growth in the region has far exceeded North America and Europe (Gittell et al. 2009). Deregulation in the region has facilitated the emergence of new players such as One-Two-Go (Thailand, 2003), Air Deccan (India, 2003), Thai AirAsia (Thailand, 2004), Tiger Airways (Singapore, 2004) and Okay Airways (China, 2005) (Baker et al. 2005). In 2009, the Association of Southeast Asian Nations eased restrictions on flights between capital cities (Knibb 2010). In so doing, they created further a favourable business environment for carriers in the region, whose ability to expand was restricted by the numerous bilateral arrangements.

Governments in Latin America also embarked on a range of measures to open their market to regional competition. These included the Andean Pact 1969 (open skies among Bolivia, Colombia, Ecuador and Peru) to facilitate deeper integration for trade and development. The

Mercosur's Fortaleza accord (open skies agreement among secondary cities in countries including Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay) is another example (Knibb 2010). It has been demonstrated that countries in South America such as Chile which have embraced deregulation have reaped benefits in the form of thriving industry and competition, in contrast to others such as Argentina that resisted market reform for some time (Lewis and Norris 2000). At this juncture, it is important to note that, in Africa, the adoption of the Yamoussoukro Declaration in 1988 as a framework of liberalisation helped to usher in a new landscape for airlines by allowing free access of air traffic between member states in order to help create a single African aviation market (Amankwah-Amoah and Debrah 2011).

This paper gleaned information from trade and industry magazines such as *Flight International* and *Airline Business*, an approach which has been found to be very useful in presenting historical analysis (Proctor 2013). Through examination of archival records which included government reports, newspaper reports and policy papers, we uncovered four phases/eras: the golden phase (1940–1959), the human-factor era (1960–1979), the embryonic stage (1980–1999) and the 'war for talent' era (2000–2010) which demonstrate how LH and skills formation have evolved in the industry. These phases reflect distinct changes in organisational practices and are utilised to structure the analysis. As such our analysis offers historical accounts and explanations of LH.

The golden phase,1940–1959

The period 1940–1950 saw a landmark transformation driven by government actions. Perhaps the most remarkable feature of this era was governments' financial support to the industry not only to help enhance national prestige, but also the military capabilities. In almost every advanced country of the world, from 1905 – when the first practical aeroplane flew – until the late 1960s, the industry was sustained by governments' resources in the form of large-scale government defence expenditure (Brooks 1967; Little and Grieco 2011). For instance, in the

1940s, the developments in the industry were overshadowed by the Second World War and its end provided airlines, whose operations were severally restricted during the war, with an opportunity to expand their geographical scope (Brook 1967).

Prior to, during and after the war, allied governments devoted substantial resources to civil aviation through defence spending to enhance their military capabilities and skills base (Little and Grieco 2011). These included the establishment of government-owned contractor-operated plants in the US, the Commonwealth Aircraft Corporation in Australia, and the creation and expansion of Shadow Factories in Great Britain (Little and Grieco 2011, 193–209). Aircraft manufacturing was seen by governments as a means to reach a satisfactory form of rearmament due to its comparative flexibility (Brooks 1967). Government subsidies were used to equip personnel including pilots, engineers and mechanics whose skills were generally seen as transferable to civil aviation (Learmount 2010). For instance, in Britain the government expansion programme through the Shadow Factories was geared towards transferring technological know-how from the automobile industry to the aircraft industry to help address the skills shortages (Little and Grieco 2011).

It was believed that the introduction of metal fabrication to both aircraft and motor industries had brought the two industries together and collaboration would enhance their capabilities which were essential in equipping the military (Little and Grieco 2011, 193–216). Indeed, as early as 1927, the British Air Ministry concluded that the increasing demand for demands of war production was beyond the capabilities of the established aircraft industry and it would have to look beyond the industry (Vietor 1990).

From 1936, the government constructed a series of co-ordinated facilities to be managed by the motor industry. Defence spending paid for all air transport development due to the fact that civil aviation activity has occurred in the military field (Brooks 1967). The shortage of skilled pilots from 1925–1938 slowed progress of the industry in the US, which forced the government to step in with a form of subsidies enshrined in the Kelly Airmail Act of 1925 and the Air Commerce Act of 1926 (Vietor 1990, 63).

National identity

In this phase, state-owned airlines (SOAs) were seen as essential 'national symbols' or the 'chosen instruments for projecting their countries internationally' (Raguraman 1997, 239). The spread of SOAs such as Air France, Alitalia, Lufthansa and KLM in Europe from the 1920s was partially attributed to such firms' close association with national security (Millward 2011). The post-second-world-war setting created an environment where countries became wary of 'foreigners' from non-allied nations, in particular. Seeking to work for foreign governments or airlines was seen as largely unpatriotic; this deterred many potential employees. The potential of being stigmatised deterred many organisations from poaching from rivals in foreign markets.

The intertwined nature of the relationship and a sense of patriotism meant that governments themselves viewed privatising such firms as 'tantamount to committing political suicide' (Gourdin 1998, 15). Such was the hostile attitude that governments at the Chicago Convention rejected the US attempt to fully open civil aviation to competition. Governments largely resisted the involvement of highly skilled foreign personnel in the management of their airlines. The movement of human capital was heavily restricted under the umbrella of national security.

Between the early 1950s and early 1970s, many colonised nations gained independence and also saw national airlines as 'a source of prestige' and a means for countries to project their image abroad (see Heymann 1962). Indeed, 'civil aviation more than other means of transport, plays an important symbolic role in national identity and nation building' (Raguraman 1997, 240). *Flight International* (2001, 3) puts it this way: some countries saw flag carriers as their 'ambassador to the world.' Governments were more inclined to inject state's financial resources in times of trouble and to bring in expertise to salvage national pride (Flight International 2001).

For these countries, such airlines were seen as 'symbols of modernism, the tangible evidence of national achievement, for which no expense appears too great and to which modest practicality and economic sense are readily sacrificed' (Heymann 1962, 390). For instance, in sub-Saharan Africa, when Ghana became the first country to gain independence in 1957, under the leadership of Kwame Nkrumah, the country committed substantial financial resources to help Ghana Airways, the then national airline, to project its image abroad and to symbolise the birth of a 'new nation' (Amankwah-Amoah and Debrah 2010). In many countries including Nigeria, Malaysia and Singapore, civil aviation was utilised to project national image and enhance national identity.

Another factor that inhibited competition for talent was the role of the International Air Transport Association (IATA). In 1945, the world's international airlines created the IATA to standardise many aspects of airline operations and began to establish a series of regional airline cartels (Pustay 1992). Its position was further enhanced by support of nations around the world who, as owners of airlines, explicitly empowered it to establish prices (Ramamurti and Sarathy 1997).

The anti-competitive regime and anti-consumer policies of the IATA continued throughout the 1960s and 1970s (Pustay 1992). This created a less competitive environment with little incentive for airlines to improve their competitiveness. The existence of the bilateral agreements between governments to adhere to the anti-competitive regime of the IATA meant that inter-firm executive mobility was largely discouraged due to the limited competition for proven executives. This phase was seen as 'the golden days' due to the fact that airlines could rely indirectly on governments to pay for high-level piloting skills to the whole civil sector and the limited competition (Learmount 2010). Having set out how governments' supports helped skills development in the industry, we now turn to the human-factor phase.

Human-factor phase, 1960–1979

Historically, the industry has struggled to be recognised as an 'important method of long-distance passenger transport' (Brook 1967, 174). From 1913 to the 1960s, aircraft were considered to be so 'unsafe and unreliable' that they were largely incapable of competing with other modes of transportation of goods and services (Brook 1967). By the 1970s, aeroplanes and their engines became increasingly reliable and in so doing shifted attention to human errors in accidents (Davey 2004).

Increasingly, greater attention was devoted to developing and acquiring human talent to help reduce mistakes and accidents (Learmount 1996). Human error was generally recognised as the greatest cause of accidents (Civil Aviation Authority 2008). Prior to this point, mechanical failure had historically been viewed as the major contributor to accidents. Airlines began to embrace and practise the so-called 'human-factors' concepts in their attempts to reduce accident rates (Learmount 1996).

The 'human-factors' training concept sought to improve safety by equipping the crew (i.e. the captain, co-pilot and cabin crew) with the necessary knowledge and social skills (Davey 2004). This led to the introduction of 'cockpit resource management' (Learmount 1996) and training courses, initiated by KLM in Europe and United Airlines in the US, which eventually became standard across the industry (Davey 2004). There was a massive upsurge in equipping crews with the right set of skills and expertise to reduce errors and accidents which were harming the image of the industry and individual airlines. Airlines' training programmes were also redesigned to attract people with the right expertise to help reduce errors. This period saw an elevation in the status of human capital as it became clearer that reducing accidents would require further investment in people and the attraction of highly skilled personnel.

The embryonic phase, 1980–1999

During this period, a host of environmental factors such as shift of political philosophy, liberalisation and privatisation fundamentally altered the traditional employer–employee relationship, creating conditions for LH to flourish.

The shift of a political philosophy

In the first and much of the second half of the twentieth century, civil servants who run state-owned firms all but ignored profitability in their directives (see Porter 2013). This was largely attributed to civil servants' interest in pleasing wishes of their political masters who often cared more about keeping air fares low, maintaining national flag-airlines and high employment (The Economist 2012; Porter 2013). In addition, the stable and relatively predictable business environments under government ownership up until the 1980s provided the context for the old social contract of job security in exchange for loyalty, commitment and accountability between employees and employers.

Prior to this period, a large proportion of skilled personnel were trained by the military so their training costs were largely borne by national governments. Both domestic and international routes of airlines were also characterised by limited competition. On domestic routes, SOAs enjoyed a monopoly power and on many international routes there was typically a duopoly of two legacy national flag-airlines representing each contracting nation of a bilateral trade agreement that existed at the time (Bamber et al. 2009). Skilled personnel such as mechanics and pilots were party to a substantial set of benefits and training schemes (Delios 2010). This was made possible due to the protected markets that existed which helped to ensure a regular flow of revenue. By guaranteeing an adequate provision of air services as governments saw fit, SOAs struggled to achieve operational efficiency required to ensure their long-term survival (Santana 2009). Consequently, they became over-reliant on the states' limited financial resources. As competition intensified, it became increasingly difficult for both legacy carriers and latecomers to maintain or match those generous benefits.

By the end of the 1970s and into the early 1980s, it became difficult for governments to continue to subsidise loss-making operations of SOAs, prompting the accelerated trend towards the privatisation of these entities. Beginning in the early 1980s, the visionary leaderships of Ronald Reagan and Margaret Thatcher ushered in a new landscape where governments increasingly shifted towards minimising or eliminating the role of the state in industries such as aviation, telecommunications, mining and water (Gamble 1988).

The basic premise of Reaganomics and its sister philosophy, Thatcherism, which emerged, was that the state was 'rarely the solution to economic ills; rather it was the problem', which engineered a revolution in global thinking about the role of the state and state-ownership of firms including airlines (Flight International 2001, 3). Both leaders believed that it was unwise for tax payers to subsidise loss-making and inefficient operations of state-owned firms.

The state-owned firms which were seen as a drag on the state's limited resources became a prime candidate for privatisation. Privatisation was seen as a means to eliminate government inefficiency and improve service provision. In the United Kingdom, Thatcherism ushered in one of the largest privatisation programmes in its history, whereas Reaganomics led to extensive deregulation of key industries to allow private competition to flourish (Gamble 1988; Sonko 1994).

This ideology had the wind in its sails as it spread from the developed world to the third world with governments of all kinds opting to privatise state-owned enterprises. Such was the influence of Thatcherism and Reaganomics, between 1980 and 1990, around 11,332 state-owned enterprises were privatised worldwide by their national governments (Sonko 1994). The worldwide surge of liberalisation and privatisation paved the way for more private firms in many industries and highly motivated managers who were rewarded for reducing costs and increasing profitability of the business (Hughes 2003).

Prior to this period, the prevailing view in much of the public policy circles was that the state could be relied upon to run businesses in an efficient manner. Interestingly, however, one of the most powerful arguments used to justify state-ownership of airlines prior to the 1980s, was that privatisation would lead to the loss of a country's skill base as skilled personnel such as pilots and engineers would relocate to other countries (Flight International 2001).

Up until the mid-1980s, the majority of the world's airlines were state owned, with the notable exception of those in the United States (Odoni 2009). Most governments believed that their airlines were too fragile to be exposed to intense global competition and privatisation could lead to loss of air service in their countries (Doganis 2006). As such, there was little or no incentive for such firms to focus on acquiring highly skilled personnel to boost their competitiveness, rather considerable attention was devoted to persuading governments to maintain the level of protection.

As private ownership of airlines became increasingly common and liberalisation gathered steam, a new competition environment was ushered in where airlines competed for top talent such as pilots, engineers and technicians to help ensure their survival. These developments eventually led to reducing subsidies to then national airlines such as British Airways, before culminating in their privatisations. Many airlines tore up the old corporate contract of permanent jobs and generous benefits in return for the employee's loyalty and hard work – first in the United States and then in much of the rest of the world (Pink 2001; The Economist 2006). Accordingly, employers' commitment to employees and employee loyalty to employers waned considerably. Employees became increasingly dissatisfied, thereby altering the basis of the traditional relationship (Delios 2010).

Nature of talent acquisition

By the early 1990s, liberalisation and deregulation had altered the competitive landscape leading to the so-called 'management for hire' (Airline Business 1999). The desire of many governments in both developing and developed countries to transform their floundering airlines became a major driver for the acquisition of 'the star performer' and 'teams'.

Governments in developing countries that have historically resisted foreign involvement in the management of their airlines altered their views, paving the way for their airlines to bring in managerial expertise to help improve efficiency. In addition, many struggling airlines engaged in wholesale management change by importing a team of executives (Airline Business 1999). Typical examples of these included Olympic Airways, Kenya Airways and Ghana Airways, when their respective governments brought in the British Airways' subsidiary, Speedwing Consulting, to help improve their businesses. This was different because prior to this the injection of new management usually took the form of one or two strategic appointments to the upper echelons to address specific problems (Airline Business 1999). The increasing recognition by governments that their firms' problems were deeply rooted prompted the acquisition of star performers including Chief Executive Officers and their teams to help transform the organisations.

Although executive search firms (ESFs) emerged in the 1950s in the US and the 1980s in Europe, they were largely under-utilised by airlines due to the governments' investments in the development of talent. The inability of many organisations to meet their human resource constraints in the 1990s opened an avenue for these firms to expand. One of the major benefits of such organisations that executives began to experience was the precious time they were spared as well as benefits from outside expertise that relieved them of the difficulty of finding experienced personnel for their organisations. By the late 1990s, search firm operations came to be seen as an extension of their clients or customer's internal resources, which could be leverage to achieve organisational goals.

Changing training culture

Having previously relied on government-funded training, global and national airlines began to move with greater speed towards employee-funded training in the 1990s due to cost pressures and withdrawal of state capital injections. By the late 1990s, in Europe, the tradition of airlines sponsoring cadet pilots through initial flying training was replaced by schemes that guaranteed jobs for carefully selected young trainee pilots only if they financed their own training (Learmount 1999b). A combination of economic pressures and industry growth led to the convergence of European and US pilot training cultures. What emerged as the preferred option for airlines, from both sides of the Atlantic, was pilot training that 'cost them nothing' (Learmount 1999b, 38). It also signalled a further incremental retreat of employers from the provision of expensive training of the highly skilled. The declining investment in training and employers' reluctance to bear the cost of training shrunk the pool of talent in the marketplace.

Beginning in the late 1990s, the associated fringe benefits and working conditions which came with the job of the highly skilled such as pilots and engineers were also significantly reduced (Flight International 1999). In Western cultures such highly skilled personnel, especially pilots, had traditionally been 'respected for their expertise and envied for their globetrotting, well-paid, career' (Flight International 1999, 3). By the end of this phase, 'the glamour and generous layover times at exotic locations' from the 1950s to the 1980s linked with the role of pilots in the industry's glory years had largely disappeared (Gubisch 2011). It became clear in the Far East, Middle East and West that the traditional perceptions of the job of the airline pilot as 'glamorous or prestigious' was changing for the worst for employees

(Flight International 1999). This fundamental shift was driven by airlines' unwillingness to fund the training, which laid the foundation for a new kind of relationship to be formed where employees' commitment and loyalty to employers diminished further. As many employers largely abandoned their traditional bargaining chips such as employees' training, personnel mobility became increasingly common as employees strove to achieve maximum rewards for their labour.

Up until this point, however, the conventional wisdom was that since skilled personnel commanded higher salaries, they would have the incentive to fund their own training. Rising training costs and failure of many qualified personnel to find jobs during downturns did, however, deter many potential employees from investing in training. By the end of the 1990s, the shortages of key personnel, including pilots, reached a critical stage in the US and elsewhere in the developed world. Prior to the end of 'the golden days' (1940–1989), the decline of traditional sources of supply contributed to poaching by regional and major airlines, which forced firms to allocate more resources to support the training of pilots and other skilled personnel (Learmount 1999a; Karlsson 2007). Next, we turn to the final phase.

The 'war for talent' phase, 2000–2010

The beginning of the twenty-first century was marked by the decline of traditional sources of supply coupled with an increasing demand in emerging markets which shrunk the talent pool, leading to more employers chasing fewer skilled personnel. Historically, training has been one of the first sectors to see cost cuts during economic downturn and one of the last to witness re-investment when the upturn comes (Learmount 2002). This era has been characterised by a number of crises that have shaped the wider industry logic.

During the first few years of this phase, crises such as 9/11 and the Severe Acute Respiratory Syndrome virus in Asia depressed the global market by causing load factor to plummet. The ensuing sharp decline in operating margins caused wholesale cutbacks in training budgets

(Gillen and Morrison 2005; Bursa 2006) leading to major redundancies (Carey 2004). For instance, the events of 9/11 led to immediate layoffs and cutbacks by airlines around the globe. In the US, airlines reduced the total system capacity to around 20% (Belobaba et al. 2009) and workforces to around 16% on average (Gittell et al. 2006). In the post-9/11 era, airlines became reluctant to fund the training of new recruits. Indeed, organised training programmes that used to help provide a supply of well-trained engineers as well as graduates and apprentices fell victim to the cost-cutting agendas (Learmount 2010).

Similar to the previous phase, it was believed that the withdrawal of funding would incentivise people to invest in their own development due to higher rewards commanded by their expertise (Bursa 2006). The emergence of the debt-laden self-sponsored student pilots, engineers and other skilled personnel created an atmosphere where potential employees increasingly sought maximum reward for their investment. As time went on, the cost became too high for many people and deterred many potential self-funded students (Gubisch 2011).

Some airlines bucked the trend and sponsored pilot training that disappeared in the 1980s in attempts to stave off rivals from stealing their talent. The German carrier, Lufthansa has traditionally paid for the training of their junior flight crew with a portion of the training cost being subsequently reflected in the salary (Gubisch 2011). On the other hand, Lufthansa and Australia's Qantas heavily lean towards self-sponsored students as the primary source of airline recruits (Learmount 2002).

In addition to the decline in internal development, a number of factors contributed to the competition for talent. First, the expansion of airlines in emerging economies caused shortages of pilots and other technical expertise in countries such as India and China (Flight International 2005), the Middle East and sub-Saharan Africa (Ionides et al. 2007). For instance, China alone was projected to require an average of 2,200 new pilots a year just to keep up with the growth in air travel (The Economist 2007). The shortages forced organisations to recruit outside their boundaries to fill gaps in managerial and technical expertise (Karlsson 2007). The failure of airlines to properly incentivise their functional heads, managers and chief executives, opened an avenue for rival firms to poach from emerging markets in Asia and the Middle-East (Karlsson 2007). Many new airlines wooed qualified personnel away from their rivals with promises of better working conditions and higher pay (Ionides 2008a), which enabled them to acquire skills and social networks to help them attract business (Garcia 2008).

Poaching was seen by many airlines as a means to fundamentally alter their knowledge bases in a timely manner to seize market opportunities. Cockpit and cabin crew in particular became the target of poachers. As Learmount (2001, 36–37) partially explains: 'of all company employees, they are the most isolated from the corporate environment because of the nature of their work, and are therefore the least susceptible to company culture and indoctrination.' As a result, such personnel have less emotional attachment to the firm and are more likely to move when the opportunity arises.

In addition, wage disparities between the small and large airlines acted as a pulling factor of the highly skilled towards destination firms and countries. The historical disparity of pay meant that there was a greater tendency among highly skilled personnel such as veteran pilots to jump ship once the better-paying major carriers knocked at the door (Carey 2004). The ability of global airlines such as British Airways, Air France, Lufthansa, Continental, Delta, United Airlines and American Airlines to offer comparable higher wages and fringe benefits made many regional airlines and those in developing economies, in particularly, vulnerable to losing employees.

There were numerous instances in Asian countries, for instance in China (Ionides 2008b), India (Airline Business 2005), the Philippines (Francis 2006) and sub-Saharan Africa (Ionides et al. 2007) where skilled personnel resigned en masse without notice to join other airlines which disrupted the operations of their airlines. Such was the acute nature of the problem that the Indian cargo operator, Blue Dart, lost 80 pilots from June 2004 to April 2005 even though it has fewer than 50 pilots in its entire workforce: many departed without notice (Ionides et al. 2007).

In 2006, the shortage of pilots at Philippine Airlines caused the flag carrier to delay taking delivery of two Airbus A319s, pushing back the implementation of its fleet renewal programme (Francis 2006). This was attributed to poaching of its employees including 75 pilots over a three-year period by airlines from India, South Korea and the Middle East. Many small airlines in sub-Saharan Africa struggled in the new competitive landscape to retain their prominent managers from defecting to other Asian and Middle Eastern airlines due to their inability to match the wages offered by their rivals (Amankwah-Amoah and Debrah 2011). Acquiring skilled personnel became increasingly difficult for airlines (Karlsson 2007), forcing many to turn to ESFs to act on their behalf (Baker 2006). Although buying the service of an ESF entails service charges, it enabled airlines to tap into their expertise as well as overcome any potential difficulties of contacting people currently employed elsewhere.

The rise of low-cost airlines (LCAs)

Although low-cost airlines (LCAs) emerged largely after deregulation in the 1970s in the US and liberalisation in Europe, the competitive pressures from these firms have contributed towards the competition for talent. LCAs such as the Ireland-based Ryanair and the UK's EasyJet, have traditionally acquired junior pilots from other regional airlines and lured senior pilots and captains from other airlines with competitive salaries and ‘golden hellos’ (Learmount 2002) to enable them to acquire knowledge in a timely manner to seize opportunities in the marketplace. In Europe, several regional European airlines accused LCAs of ‘robbing’ them of pilots leading to major shortages (Ionides et al. 2007).

In the 1970s and 1980s, it was commonplace to see pilots and engineers as chief executives of many airlines. The ‘real airline professionals’ were those who had proved themselves in areas such as engineering and maintenance (Bell 2010). There has, however, been a shift starting in the late 1990s from technical acumen to management skills (Baker 2006). Airlines are increasingly focusing on the acquisition of people with expertise in areas including management, finance, commerce and law to manage the upper echelons of their operations (Bell 2010).

By the early 2000s, LCA experience also became an essential element for airline executives and the pressure to reduce costs pushed traditional airlines to lure executives with expertise in their cost-saving strategies (Bell and Lindenau 2006). Airlines also began to demand from the ESFs, people with what they called the ‘mystical LCAs DNA’ to bring on board expertise in cost reduction (Bell and Lindenau 2006). As a result, informal and formal poaching agreements have been a key feature of the industry.

Governments’ and airlines’ responses

Gentlemen’s agreements among airlines and their associations not to poach each other’s employees became the norm. Identical to the four phases, informal no-lateral-hiring agreements was an implicitly understood anti-competitive norm among airline associations. In the 2000s, the Association of Asia Pacific Airlines which includes Korean Air, Japan Airlines and Singapore Airlines advised its members not to entice away each other's qualified personnel (Ionides et al. 2007). LH was an unfolding phenomenon which rose to the forefront of firms’ human resources strategies in the 2000s, prompting governments and organisations to act further.

In the early 2000s, many governments and regional airlines questioned the ethics of LH, whilst others began to take actions to stem the outward flow of talent. Until this period, however, governments had remained relatively silent on the issue of personnel poaching. In the 2000s, the African Airlines Association accused major Western and Middle Eastern airlines of poaching skilled staff which was hampering the industry's competitiveness (Endres 2006; Ionides 2006).

In response to increasing poaching of pilots and cockpit crew resigning en masse without notice, India's government introduced a scheme which required pilots to give at least six months' notice (Airline Business 2005). This meant that pilots in India had to give their employers six months' notice if they planned to join other airlines – regardless of the terms of their employment. India was not alone in this. In China, the Civil Aviation Administration of China's East China office implemented a new regulation; they required pilots to pay between 700,000 Yuan and 2.1 million Yuan in compensation to their airlines (Ionides 2008a). The skill shortage became acute owing to declining investment in training and an increasing number of former military aircrews retiring from the industry (Learmount and Kelly 2003). Such is the severe nature of the problem that the US Congress passed the Fair Treatment for Experienced Pilots Act in 2007, which increased the mandatory retirement age for pilots from 60 to 65 in an attempt to address supply side issues. By 2008, the Act had brought hundreds of pilots onto the labour market who would have otherwise retired and helped address talent shortages.

At firm level, LH forced many existing players to up their rewards to deter poachers and thereby contributed to the increasing competition for human talent (Baker 2006). In a landmark case, China's Shanghai Airlines went to court to seek a combined 35 million Yuan ($5 million) in compensation from nine pilots who attempted to leave the airline to join rival airlines (Ionides 2008a). The airline claimed that the amount was to pay for the cost of training those pilots and their resignations would have a negative impact on the company's operations and flight safety. Similarly, in 2006, a court in Jiangsu province also ordered eight pilots, who quit their jobs at an airline, to pay around 1.07 million Yuan ($143,000) in compensation (Ionides 2008b). The increasing demand for air travel in emerging economies, especially China and India, has led to shortages of skilled personnel giving rise to LH. Labour unrest is brewing in China with shortages of qualified personnel on the rise and established airlines trying to prevent their staff from moving to new employers for higher pay (Ionides 2008b).

Insert Table 1 about here

The fundamental shift from mainly government-funded (1940–1979) to employer-funded (1980–1999) and then to largely employee-funded training (late 1990s–2010) has characterised the evolving role of stakeholders in the development of human capital to meet the industry's requirements (see Table 1). The table summarises the key features of LH and how it has evolved through the phases. The evolving role of individuals, employers and employees in the development of human capital throughout the four phases was ultimately shaped by the question of ownership and control as the industry structure evolved. Figure 3 demonstrates the relationship between the phases.

Insert Figure 3 about here

Discussion and conclusion

This article sought to examine the evolution of LH and skills formation in the global airline industry from the 1940 to 2010. The study uncovered four phases (i.e. the golden, human-factor, embryonic stage and 'war for talent') which shed light on how the practice has emerged to become a common feature in the global industry. In the 'golden phase', the close association of civil aviation with national security, and the post-war setting provided conditions for governments to deploy their financial resources towards enhancing the capabilities of airlines and capacity of the industry. The period was generally seen as the 'golden days' due to large investment by national governments to develop talent and retain national skilled personnel. Employees' loyalty became further entrenched due to the strong association of civil aviation with national security. In addition, the agreements initiated by the IATA created a less competitive environment where there was little incentive to compete for proven executives.

The human-factor era (1960–1979) laid further foundations for competition talent to begin to emerge. The improvements in aircraft technology by the 1970s shifted focus towards the acquisition and development of human talent to help reduce human error. In the embryonic stage (1980–1999), the traditional employer–employee relationship, which was built on commitment in exchange for hard work and loyalty, was fundamentally altered. Global competition facilitated by deregulation, liberalisation and privatisation altered the competitive landscape, leading to a changing training culture.

Our analysis demonstrate that state ownership until the late 1980s provided conditions for substantial investment by governments followed by private-sector-led investment. As competition intensified, the role of airlines in training diminished, with employees taking on the prominent role in their own development. By the late 1990s, airlines had largely abandoned the employer-funded training of highly skilled personnel for employee-funded schemes. As airlines relegated their roles and commitment to employees, employees' loyalty also waned considerably. The withdrawals of government-funded training, state ownership, employer-sponsored training, combined with the diminished loyalty of employees, have altered the basis of the employer–employee relationship and provided the conditions for LH to flourish.

In the 'war for talent' phase, the poaching of highly skilled personnel generally came to be seen by many airlines as a means to fundamentally alter their knowledge bases in order to seize market opportunities. Organisations became increasingly receptive to the practice. The rise of LH was shaped by the interplay of organisational factors such as the changing training culture, demise of the traditional employer–employee relationship and institutional factors including deregulation and liberalisation. Collectively, the analysis provides a historical model of how lateral hiring evolved, as organisations, individuals and governments influenced skill formation. By extending these insights to organisational history, our work has shown that the evolution of the hiring practice has been influenced by affect a wide array of political and economic factors.

This article contributes to the management and organisational history literature by developing a historical phase model of the evolution of lateral hiring practices. In so doing, the study adds to the wider debate about the role of and competition for human capital in today's global economy. From a practical standpoint, the findings indicate a need for modern airlines to tailor their resources towards nurturing those skills which are tied to their firms' unique environment and minimise investment into general training. Given that the study focused mainly on the role of the three parties (i.e. government, employees and airlines), it might be useful for future studies to examine the historical role of other parties such as trade unions in creating an environment which allow personnel poaching to spread in the industry. Future research should also seek to examine how governments' policies have responded to the shift towards personnel poaching and its effects on the competitive landscape. By sketching out the historical trajectory and evolution of LH, we hope that this work would help to ignite further scholarly works on the subject.

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Figure 1. A framework of the roles of the three parties in skills formation

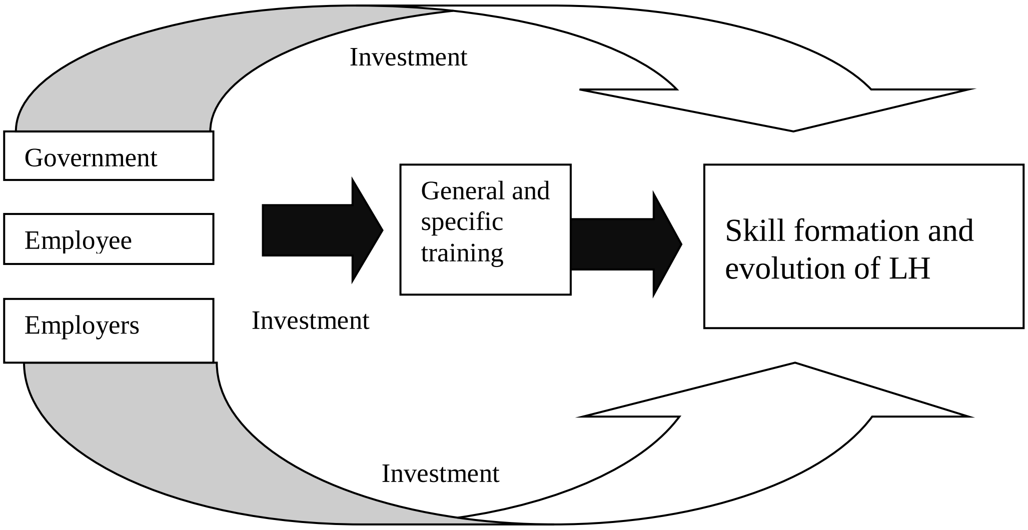
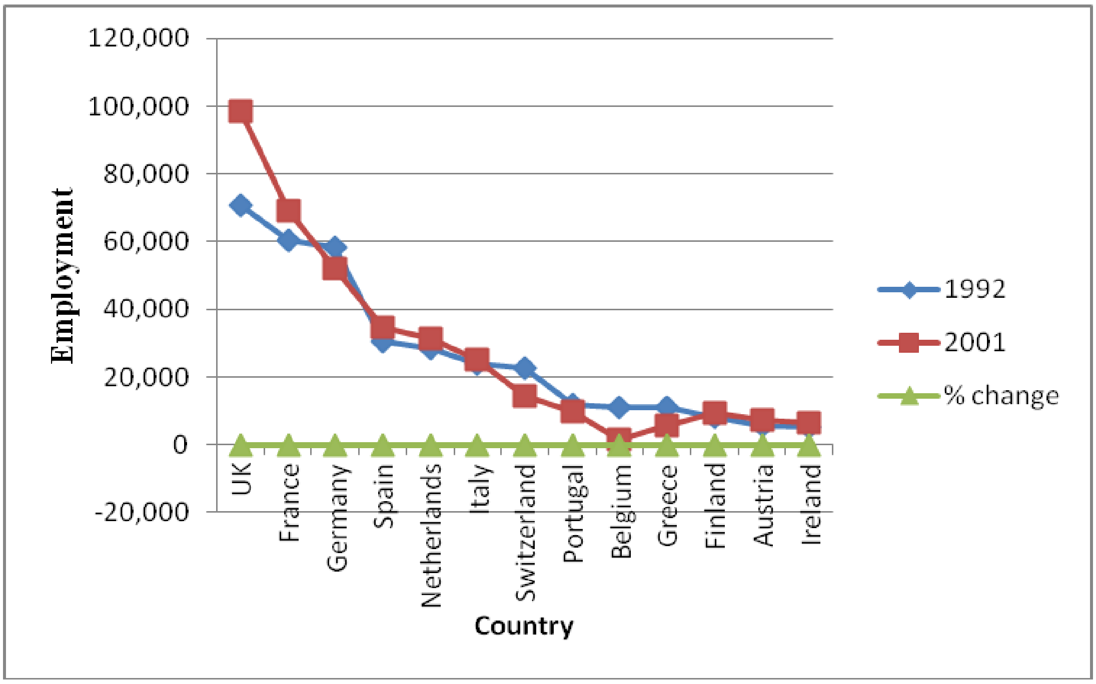


Figure 2: Airline employment by country 1992 and 2001



Data source: Civil Aviation Authority (2004).

Figure 3: Lateral hiring and skills formations in the global airline industry

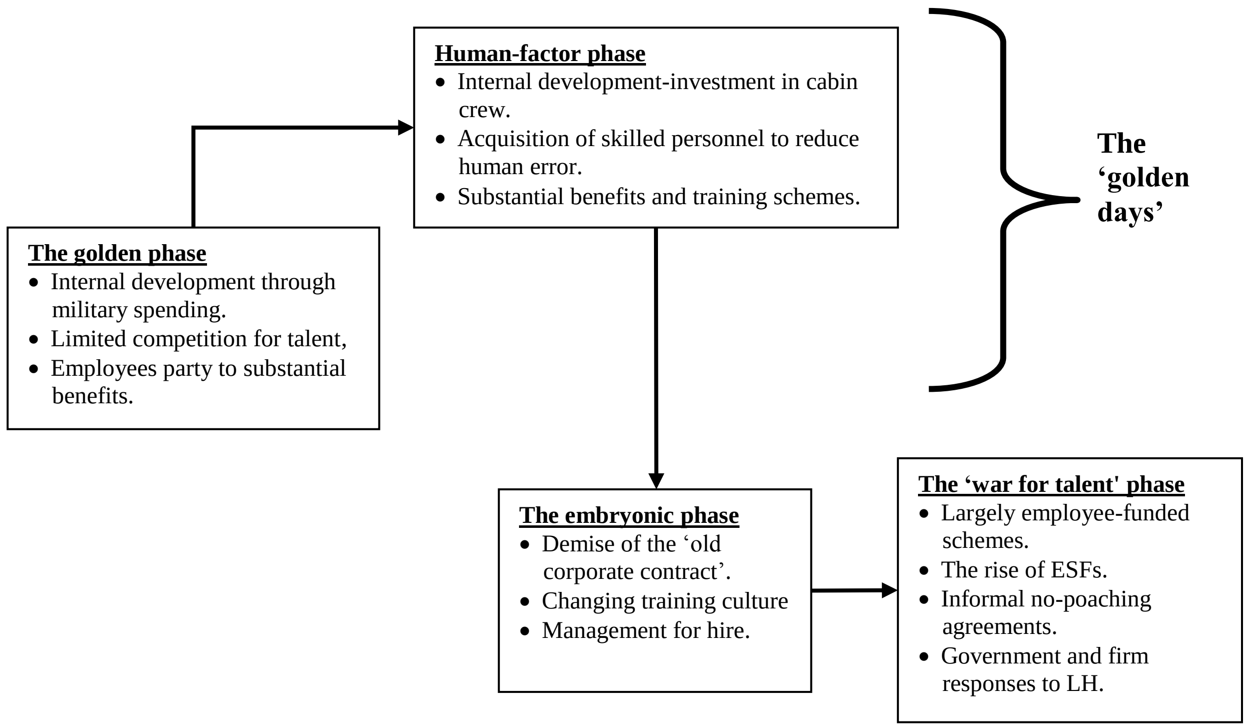


Table 1. The evolution of lateral hiring – phases, drivers and practice 1940–2010

Dimension	**The golden phase (1940-1959)**	**Human-factor phase (1960-1979)**	**The embryonic phase (1980-1999)**	**The 'War for talent' phase (2000- 2010)**
Organisational practices	• State-ownership provided the basis for state-sponsored. • Military-trained supply.	• Military supply • Airlines expansion largely supported by state investment. • The human-factors concepts.	• Decline of military-trained supply and internal development. • Decline of employer-sponsored training and rise of employee-sponsored training. • Reliance on external labour market for talent-management-for-hire. • The rise of Reaganomics and Thatcherism was followed by increasing privatisation in Europe and US with new management practices. • The rise of ESF in Europe.	• External labour market-talent acquisition through ESF. • Largely employee-funded. • Retaining highly skilled personnel became getting harder for airlines.
Mobility facilitators and barriers	• National security concerns. • Employee loyalty and patriotism. • Pride in the flag and national loyalties. • Informal no-poaching agreements.	• State-ownership • Employee loyalty and patriotism. • Informal no-poaching agreements.	• Diminished loyalty and feeling of betrayal. • New market and new players. • Employee-led attempt to seek maximum reward. • Informal no-poaching agreements.	• New market and new players. • Firms are increasingly receptive to poachers. • Informal no-poaching agreements.